



Legislative Fiscal Bureau

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December 5, 2023

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Insurance: Request under s. 16.515 and s. 16.505(2) for Additional Positions and Associated Funding for the Office of the Commissioner of Insurance -- Agenda Item II

Under s. 16.515 and s. 16.505(2), the Department of Administration may provide PR funding supplements or create PR positions, subject to approval of the Committee under a 14-day passive review process. If the Committee objects, the funding supplement or position authorization may not take effect unless the Committee votes affirmatively to approve or modify and approve the proposal.

On November 10, 2023, the Department of Administration (DOA) notified the Committee of its approval of requests, submitted by the Office of the Commissioner of Insurance under sections 16.515 and 16.505(2), to provide 6.07 PR positions annually and \$338,600 PR in 2023-24 and \$677,100 PR in 2024-25 in OCI's general program operations appropriation to increase the number of personnel conducting its duties related to financial and market regulation of the insurance industry. On December 1, 2023, the Co-Chairs of the Committee notified DOA of an objection to the request.

BACKGROUND

The Office of the Commissioner of Insurance is responsible for the regulation of the insurance industry, including regulation of market practices to ensure compliance with laws relating to the sale of insurance products, as well as the monitoring of the financial condition of companies. OCI has two principal divisions for administering these regulatory functions: The Division of Financial Regulation and the Division of Market Regulation and Enforcement.

The primary role of the Division of Financial Regulation is to conduct company examinations to monitor the financial condition of insurers. The purpose of these examinations is to detect early signs of financial risks that could result in insolvency, as well as to ensure that the company is in compliance with insurance laws and regulations. Upon completion of the examination, OCI produces a report listing the findings relevant to the company's solvency risk.

With limited exceptions, OCI is required to conduct a financial examination of domestic insurers (Wisconsin-based) at least once every five years. These in-depth reviews involve an assessment of the various aspects of a company's operations, including its financial condition, capital reserves, risk exposure, risk mitigation strategies, corporate structure, and information systems. Depending upon the size and complexity of the company, the examination can take anywhere between three months to over one year. Financial examinations are conducted in accordance with procedures and standards developed by the National Association of Insurance Commissioners (NAIC), an accrediting organization for all state insurance departments.

The Division of Financial Regulation has 60.0 authorized permanent positions, most of which are insurance financial examiners, of varying classification levels. The 2023-25 budget (Act 19) provided 3.0 new financial examiner positions for the Division.

The Division of Market Regulation and Enforcement is responsible for monitoring compliance with market conduct laws and regulations for insurers and agents. Among other actions to fulfill these duties, the Division may perform market conduct examinations to review insurer underwriting and rating practices. The Division is also responsible for agent licensing, monitoring marketing and sales practices, responding to consumer complaints, and promoting consumer education related to insurance matters. The Division has 43.0 positions, most of which are classified as insurance financial examiners, consumer complaint associates, or license permit program associates. Act 19 provided 1.0 new financial examiner position for the Division.

Prior to the Act 19 position increases, the last increase for OCI's regulatory divisions occurred in 2018, with the approval of 4.0 positions under the 16.515/16.505 passive review process.

The regulatory functions of the Office are funded with agent and company licensing and filing fees and assessments collected for the cost of company examinations. Revenue from fees and assessments is deposited in a program revenue account for general program operations, although insurance revenues are typically well in excess of OCI expenditures. The amount of insurance revenue collected in excess of OCI expenditures (plus a reserve equal to 10% of expenditures), is deposited in the general fund (counted as GPR-earned). The following table shows collected revenue, OCI PR expenditures, and GPR-earned transfer for the past six years.

**Insurance Fee Program Revenue Collected, OCI Expenditures, and Amount
Transferred to the General Fund**

| <u>Fiscal Year</u> | <u>OCI PR Revenues</u> | <u>OCI PR Expenditures</u> | <u>GPR-Earned Transfer</u> |
|--------------------|----------------------------|--------------------------------|--------------------------------|
| 2017-18 | \$43,101,300 | \$17,064,800 | \$26,685,900 |
| 2018-19 | 44,351,400 | 17,451,100 | 26,285,700 |
| 2019-20 | 43,522,300 | 18,267,300 | 25,148,300 |
| 2020-21 | 49,260,000 | 17,365,100 | 32,437,300 |
| 2021-22 | 52,505,800 | 18,925,600 | 34,060,100 |
| 2022-23 | 51,470,900 | 19,316,300 | 32,160,800 |

AGENCY REQUEST

OCI has requested 6.07 PR positions, beginning in 2023-24, and funding to support the positions of \$338,600 PR in 2023-24 and \$677,100 PR in 2024-25. The following table shows the position classifications for the requested positions, by OCI division. Following the table is a description of the function of each requested position and the agency's justification for the request.

| | |
|--|------|
| Division of Financial Regulation | |
| Insurance financial examiner | 2.00 |
| Attorney | 1.00 |
| Division of Market Regulation and Enforcement | |
| License permit program associate | 1.00 |
| Insurance examiner-entry | 1.00 |
| Business automation specialist | 1.00 |
| Office of Operational Management | |
| Purchasing agent | 0.07 |

Division of Financial Regulation --

Insurance financial examiners and attorney. OCI is requesting 2.0 insurance financial examiner positions and 1.0 attorney to assist in conducting company financial reviews.

OCI argues that additional insurance examiner positions are needed to keep up with a growing workload of company examinations, driven largely by an increase in the number of Wisconsin-based insurers. In the past five years, the total number of domestic insurers has grown by 166, from 1,878 at the end of 2017 to 2,044 at the end of 2022. In addition, companies have become more complex in their ownership structures, financial arrangements, products, and business practices. All of these factors have increased the time needed to complete examinations.

As justification for the attorney position, OCI cites the increasing complexity of insurance company ownership and financial arrangements. OCI believes that having an attorney dedicated to the Division with specialized knowledge in financial, corporate, and security law would increase the efficiency of financial reviews.

According to a workload analysis conducted in preparation for its 2023-25 budget request, OCI determined that the Division would need an additional six to ten positions to complete anticipated reviews scheduled for the next three years, which is three to seven more than were provided by Act 19. OCI indicates that it has used overtime hours and reallocated staffing resources as possible to address workload demands, but believes that additional positions are still needed for the Division.

Division of Market Regulation and Enforcement --

License permit program associate. OCI is requesting 1.0 license permit program associate to

address a backlog in agent license and other applications processed by the Division. OCI indicates that this backlog is driven largely by an increase in both resident and non-resident insurance agents seeking licensure in the state. From 2017 to 2022, the number of licensed agents increased by 61,224, from 152,847 to 214,071. OCI indicates that it has used overtime and LTE staffing to address the increased application workload, but believes that adding an additional associate would be a more sustainable solution.

Insurance examiner-entry. OCI is requesting 1.0 insurance examiner-entry position for the Division's Consumer Affairs section for property and casualty insurance to address a backlog of open consumer complaints. OCI indicates that with the current level of staffing, the Consumer Affairs section can close around 1,200 to 1,300 cases per year, yet has received over 2,000 consumer complaints in the past year. The property and casualty section currently has over 400 open pending cases.

Information systems (IS) business automation specialist. OCI is requesting 1.0 for business automation specialist position to assist with the market conduct activities of the Division. OCI indicates that the position would have knowledge of the insurance industry's use of data systems and technology in order to improve OCI's collection, analysis, and presentation of data from insurers and other regulated entities, as well as to help coordinate and update the Division's current data systems.

Office of Operational Management --

Purchasing agent. OCI is requesting 0.07 position to increase the current 0.93 purchasing agent position to full time. No funding is requested with this increase, as OCI will absorb the additional position fraction within its current budget.

CONCLUSION

The evaluation of position needs for any regulatory agency, such as OCI, typically rests on estimates of current and anticipated workload level in relation to the workload capacity of the existing staffing level. In submitting its request for addition positions in the Division of Financial Regulation and the Division of Market Analysis, OCI points to several measures of increasing workload that have occurred over the past several years, including an increase in licensed companies and intermediaries, increasing complexity in insurance company ownership structure and investments, an increase in insurance company filing requirements, and an increase in consumer complaints or other requests for assistance to the Office. In addition, OCI cites several indicators of current understaffing, including increasing backlogs in financial examinations, consumer complaints, and intermediary licensing. These trends toward the growth in regulated entities and the complexity of the industry appear likely to continue. Moreover, since OCI's regulatory responsibilities are generally determined by state statute and the procedures and standards maintained by the National Association of Insurance Commissioners, the Office has limited opportunities to modify its processes to reduce workload. In light of these factors, OCI's request for additional positions is reasonable, and the Office's program revenue account has sufficient revenue to support the increase. If OCI's request is not approved, the Office would likely continue to face process backlogs and may need to use additional staff overtime or else contract for some regulatory

functions, both of which would may increase the cost to the regulated entities.

ALTERNATIVES

The Committee could approve the request in full, or select some combination of the requested positions. The table below shows each position separately, as well as the requested funding associated with each. The total funding for the positions approved by the Committee, if any, will be rounded to the nearest \$100.

1. Approve one or more of the positions and associated funding, as shown below.

| | <u>FTE</u> | <u>2023-24</u> | <u>2024-25</u> |
|--|------------|----------------|----------------|
| Division of Financial Regulation | | | |
| a. Insurance Financial Examiner | 1.00 | \$49,664 | \$99,328 |
| b. Insurance Financial Examiner | 1.00 | 49,664 | 99,328 |
| c. Attorney | 1.00 | 98,110 | 196,220 |
| Division of Market Regulation and Enforcement | | | |
| d. License Permit Program Associate | 1.00 | \$28,536 | \$57,072 |
| e. Insurance Examiner-Entry | 1.00 | 38,080 | 76,160 |
| f. IS Business Automation Specialist | 1.00 | 74,596 | 149,192 |
| Office of Operations Management | | | |
| g. Purchasing Agent | 0.07 | \$0 | \$0 |
| h. Full Request (Total) | 6.07 | \$338,600 | \$677,300 |

2. Deny the request.

Prepared by: Jon Dyck